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MADSEN
RED LAKE GOLD
MINES,

L I M I T E D

ANNUAL REPORT
1979

ANNUAL MEETING MAY 26, 1980



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MADSEN RED LAKE GOLD MINES, LIMITED

directors

| | |
|---|----------------|
| PAUL H. McCLOSKEY <i>Mining Executive</i> | Toronto |
| HUGH H. MACKAY <i>Director of Pitfield, Mackay, Ross & Company Limited, Investment Dealers</i> | Rothesay, N.B. |
| FOSTER W. HEWITT <i>Radio Executive, President of Radio Station CKFH</i> | Toronto |
| A. D. HELLENS <i>Mining Executive</i> | Toronto |
| R. DUNCAN McCLOSKEY <i>Mining Executive</i> | Toronto |

officers

| | |
|--|---------|
| PAUL H. McCLOSKEY, <i>President</i> | Toronto |
| R. DUNCAN McCLOSKEY, <i>Executive Vice-President</i> | Toronto |
| FOSTER W. HEWITT, <i>Vice-President</i> | Toronto |
| S. CZARNECKI, <i>Secretary-Treasurer</i> | Toronto |

MADSEN RED LAKE GOLD MINES, LIMITED

HEAD OFFICE 11 Adelaide St. W., Suite 800
Toronto, Canada M5H 1L9

TRANSFER AGENTS AND REGISTRARS

GUARANTY TRUST COMPANY OF CANADA
88 University Avenue, 5th floor, Toronto, Canada M5J 1T8
427 St. James Street West, Montreal, Canada

THE BANK OF NEW YORK 48 Wall Street, New York 10015, N.Y.

AUDITORS

JARRETT, GOOLD & ELLIOTT Suite 3160, First Canadian Place
Toronto, Ontario M5X 1C7

LISTED

TORONTO STOCK EXCHANGE 234 Bay Street
Toronto, Canada M5J 1R1

REPORT OF THE DIRECTORS

To The Shareholders:

Your Directors submit the 44th Annual Report which includes the Auditors' financial statement, covering the year ended December 31, 1979.

Mine Sale

Under the terms of an agreement between Madsen and Bulora Corporation Limited, dated September 14, 1974, covering the sale to Bulora of the Company's mine and all adjacent mining properties and all mine buildings and mine equipment in the Red Lake area of Ontario, Madsen was to receive \$1,700,000 in cash and a royalty of 15% of the net proceeds received by Bulora from the operation of the Madsen mine. At December 31, 1979, \$1,500,225 of the \$1,700,000 was paid, leaving an outstanding balance of \$199,775 excluding interest and other charges also covered by the Debenture. On March 19, 1980, Madsen received \$276,034.27 from Coopers & Lybrand Limited, Court appointed Receiver and Manager of Bulora Corporation Limited, as payment against the outstanding balance including interest payable at that date. A small charge of slightly less than \$15,000.00 that is being contested by the Second Debenture Holders, is the only remaining receivable under the agreement. The Court will make a decision of this point at which time Madsen will have no further interest in its former producing gold mine in Red Lake, Ontario.

Financial Review

Net earnings after extraordinary item were \$683,758 or \$.250 per share compared to \$17,047 with \$.006 per share in 1978.

Working capital at December 31, 1979, was \$2,384,787 compared to \$2,120,926 at December 31, 1978.

Issuer Bid

On June 18, 1979, the Toronto Stock Exchange issued a stop trading order on Madsen shares to enable management to announce an Issuer Bid Proposal. Madsen offered to purchase 730,000 shares of its outstanding capital stock at a price of \$1.30 per share. The purchase price at that time was approximately 24% above the market price of the shares in the week preceding the announcement and 62.5% over the market price at the beginning of the year. On July 5, 1979, 68,500 shares of Madsen were tendered. Although management was somewhat disappointed that more shares were not tendered, they were encouraged by the fact that the shareholders had shown confidence in the future of the Company.

In addition to the 68,500 shares tendered on July 5, Madsen purchased 49,900 shares of its outstanding capital stock. At year end Madsen held a total of 648,400 shares purchased at an average price of 78¢ per share.

Oil and Gas Exploration and Development

Madsen has continued to expand its activity in the exploration for oil and gas in Western Canada. While expenditures remain high, revenues are beginning to offset some of the drain on working capital. Revenue in 1979 was slightly less than \$60,000 coming almost entirely from one well. Expectations are for revenue to more than double in 1980. However, expenditures will also be higher. As a result, our oil and gas exploration and development will have a negative effect on working capital in 1980.

Signalta Resources Limited Joint Venture

Madsen's 11.1111% interest in Signalta's successful Birch 11-12-50-11 W4M gas well has resulted in a cash flow of approximately \$64,000 to the Company over the period November 1978 through December 31, 1979. Life expectancy for this well is at least 15 years.

Madsen participated in drilling nine additional wells with Signalta in Forestburg, Central Alberta. This resulted in five additional gas wells for the Joint Venture making the purchase and operation of a gas plant by the Joint Venture feasible.

Signalta has the capacity and gas contract for 5 MMCFD and expects to have two wells on stream in mid April 1980 at a combined rate of 3 MMCFD. It is expected that this rate will be maintained for the rest of the year. Madsen has a 10.6% interest in the plant and varying APO interests of 4.5833% to 7.9854% in the nine successful gas wells to date. In order to build up reserves, drilling of a minimum of five wells in this area is planned for 1980.

Zephyr Resources Joint Venture

Madsen has participated in both Zephyr's 1978 and 1979 Joint Ventures and is committed to the 1980 programme.

The 1978 Joint Venture funded the drilling of fourteen additional wells resulting in four potential gas wells, two oil and gas wells, seven oil wells and one dry hole. The programme to December 31, 1979, has resulted in twenty potential gas wells, four oil and gas wells, sixteen oil wells, three suspended holes and eight dry holes. Twenty-one of the above mentioned wells were producing by year end; eighteen oil and three gas wells.

Further drilling and additional wells coming on stream are expected in 1980. Madsen's interest in this programme is 2%. Cash flow from this source was minimal in 1979. However, it is expected to increase in 1980.

The 1979 Joint Venture funded the drilling of thirty-three wells, twenty-one cased and twelve dry holes. Three successful oil wells are already on stream. Madsen's interest in the wells varies from 1.08% to 1.74%. Further development drilling is anticipated in 1980. No significant cash flow is expected from this programme until 1981.

Renaissance Resources Joint Venture

Madsen participated in the 1979 Renaissance Resources Limited Joint Venture and funded the drilling of thirty-five wells in Alberta and British Columbia, resulting in fourteen potential gas wells, one oil and gas well and twenty dry holes. It is expected that five to ten of the successful wells will come on stream in 1980. An additional ten development wells will be drilled before completion of this programme. Madsen's interest is 3.573%.

Madsen is committed to Renaissance's 1980 Joint Venture. No results are available at the time of writing.

Other Oil and Gas Interests

Madsen has agreed to participate in Consolidated Morrison's \$10,000,000 "Sawtooth Project" in southeastern Alberta. Other members of the Joint Venture include Signalta Resources Limited, Dynamar Energy Limited, Rayrock Resources Limited and several individuals. Madsen's interest in the project is 4%.

The second well in the Palo Duro Basin in Texas was completed in 1979 and resulted in a dry hole. Further involvement in this project is not anticipated at the time of writing.

Other Interests

Madsen maintained its interest in Baffinland Iron Mines during the year at 21%. Baffinland Iron Mines owns large iron deposits on Baffin Island. Although not yet under development, the deposits will have substantial future value.

There was no change with respect to Lassie Red Lake Gold Mines Limited in the year 1979.

It was reported last year that Madsen intended to drop its land holdings in Saskatchewan. However, this decision has since been reversed and the holdings have been maintained.

At year end the Company's investments were approximately 79% in gold or gold oriented securities, 17% in oil and gas and 4% other.

The Company will continue to increase its investment portfolio in the natural resource industry and will consider participation, either directly or through operating companies, in worthwhile ventures.

1980 First Quarterly Results

Earnings for the first quarter ended March 31, 1980, were \$128,045 or \$0.036 per share, compared with \$22,343 or \$0.006 per share for the same period of 1979.

Income for first quarter was \$158,234 on March 31, 1980, compared to \$56,113 for the similar period in 1979.

Working Capital was \$2,654,855 compared to \$2,058,412 for the same period in 1979.

In mid March Coopers and Lybrand, Receiver and Manager of Bulora Corporation, paid to Madsen a total of \$276,034.27, the principal and interest thereon of the Bulora Corporation Ltd. Debenture in favour of Madsen.

Respectfully submitted,

P. H. McCloskey,
President.

Toronto, Ontario,
April 15, 1980.

BALANCE SHEET

December 31, 1979

ASSETS

| | 1979 | 1978 |
|--|--------------------|--------------------|
| CURRENT ASSETS | | |
| Cash | \$ | \$ 10,732 |
| Short-term deposits | 820,523 | 682,675 |
| (Market value \$1,244,548; 1978 \$1,085,670) | | |
| Accounts receivable | 74,444 | 7,141 |
| Marketable securities (note 3) | 1,579,618 | 1,561,090 |
| (Market value \$4,117,817; 1978 \$2,518,034) | | |
| | <u>2,474,585</u> | <u>2,261,638</u> |
| NOTE RECEIVABLE (note 2) | 199,775 | 199,775 |
| SHARES IN COMPANIES, at cost | | |
| Baffinland Iron Mines Limited | | |
| 714,493 (1978 703,388) shares | 593,386 | 582,279 |
| Other | <u>1,251</u> | <u>1,251</u> |
| | 594,637 | 583,530 |
| FIXED ASSETS | | |
| Furniture and equipment | 23,955 | 22,953 |
| Accumulated depreciation | <u>21,531</u> | <u>20,925</u> |
| | 2,424 | 2,028 |
| MINING PROPERTIES | | |
| Mining claims | 26,953 | 26,953 |
| Deferred exploration expenditure | <u>24,251</u> | <u>22,083</u> |
| | 51,204 | 49,036 |
| OIL AND GAS INTERESTS | 893,823 | 409,167 |
| | <u>\$4,216,448</u> | <u>\$3,505,174</u> |

Approved by the Board:

P. H. McCLOSKEY, Director

FOSTER W. HEWITT, Director

MADSEN RED LAKE GOLD MINES, LIMITED

LIABILITIES

| | 1979 | 1978 |
|------------------------------------|----------------|----------------|
| CURRENT LIABILITIES | | |
| Bank indebtedness (note 3) | \$ 16,833 | \$ 120,000 |
| Accounts payable | 72,965 | 20,712 |
| | <u>89,798</u> | <u>140,712</u> |
| DEFERRED INCOME TAXES | 289,000 | 44,000 |
| | <u>378,798</u> | <u>184,712</u> |

SHAREHOLDERS' EQUITY

| | | |
|------------------------------|--------------------|--------------------|
| SHARE CAPITAL (note 4) | 1,640,222 | 1,806,792 |
| RETAINED EARNINGS | 2,197,428 | 1,513,670 |
| | <u>3,837,650</u> | <u>3,320,462</u> |
| | <u>\$4,216,448</u> | <u>\$3,505,174</u> |

AUDITORS' REPORT

To the Shareholders,
Madsen Red Lake Gold Mines, Limited.

We have examined the balance sheet of Madsen Red Lake Gold Mines, Limited as at December 31, 1979, and the statements of retained earnings, earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1979, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
February 1, 1980.

JARRETT, GOOLD & ELLIOTT
Chartered Accountants

MADSEN RED LAKE GOLD MINES, LIMITED

STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1979

| | 1979 | 1978 |
|----------------------------------|--------------------|--------------------|
| Balance, beginning of year | \$1,513,670 | \$1,587,409 |
| Net earnings | 683,758 | 17,047 |
| | <u>2,197,428</u> | <u>1,604,456</u> |
| Dividends | | 90,786 |
| Balance, end of year | <u>\$2,197,428</u> | <u>\$1,513,670</u> |

STATEMENT OF EARNINGS

for the year ended December 31, 1979

| | 1979 | 1978 |
|--|-------------------|------------------|
| Income | | |
| Gas revenue | \$ 93,678 | \$ 4,473 |
| Production expenses and royalties | 34,596 | |
| | 59,082 | 4,473 |
| Investment income | 170,836 | 128,094 |
| Gain on sale of marketable securities | 858,697 | 3,732 |
| | <u>1,088,615</u> | <u>136,299</u> |
| Expenses | | |
| Administrative | 138,895 | 109,595 |
| Depletion and depreciation | 20,962 | 507 |
| | <u>159,857</u> | <u>110,102</u> |
| Earnings before income taxes and extraordinary item | 928,758 | 26,197 |
| Income taxes — current | | 14,000 |
| — deferred | 245,000 | |
| | <u>245,000</u> | <u>14,000</u> |
| Earnings before extraordinary item | 683,758 | 12,197 |
| Extraordinary item | | 4,850 |
| Net earnings | <u>\$ 683,758</u> | <u>\$ 17,047</u> |
| Earnings per share (weighted average) | | |
| Before extraordinary item | \$.250 | \$.004 |
| Net earnings | <u>\$.250</u> | <u>\$.006</u> |

MADSEN RED LAKE GOLD MINES, LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1979

| | 1979 | 1978 |
|--|--------------------|--------------------|
| SOURCE OF WORKING CAPITAL | | |
| From operations | | |
| Earnings before extraordinary item | \$ 683,758 | \$ 12,197 |
| Items not requiring an outlay of working capital | | |
| Depreciation and depletion | 20,962 | 507 |
| Deferred income taxes | 245,000 | |
| | 949,720 | 12,704 |
| Reclassification of investment in shares in companies as current | | 43,583 |
| Reduction of income taxes | | 4,850 |
| | 949,720 | 61,137 |
| APPLICATION OF WORKING CAPITAL | | |
| Purchase of fixed assets | 1,003 | 178 |
| Outside exploration | 2,168 | 4,465 |
| Purchase of oil and gas interests | 505,011 | 318,747 |
| Purchase of 118,400 (1978 205,475) shares of share capital of Company | 166,570 | 172,705 |
| Purchase of shares of Baffinland Iron Mines Limited | 11,107 | |
| Dividends | | 90,786 |
| | 685,859 | 586,881 |
| INCREASE (DECREASE) IN WORKING CAPITAL | 263,861 | (525,744) |
| WORKING CAPITAL, BEGINNING OF YEAR | 2,120,926 | 2,646,670 |
| WORKING CAPITAL, END OF YEAR | <u>\$2,384,787</u> | <u>\$2,120,926</u> |
| REPRESENTED BY | | |
| Current assets | \$2,474,585 | \$2,261,638 |
| Current liabilities | 89,798 | 140,712 |
| Working capital | <u>\$2,384,787</u> | <u>\$2,120,926</u> |

MADSEN RED LAKE GOLD MINES, LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1979

1. Significant accounting policies

(a) *Short-term deposits and marketable securities*

The Company carries its short-term deposits and marketable securities, at cost.

(b) *Shares in Baffinland Iron Mines Limited*

The Company carries its interest in Baffinland Iron Mines Limited, a company engaged in the exploration and development of an iron ore property, at cost. Realization of an income on or recovery of the cost of these shares is subject to the development and production in sufficient quantity of ore of economic value.

(c) *Fixed assets*

Fixed assets are stated at cost. Depreciation is provided over the estimated useful lives of the fixed assets on the diminishing-balance basis at an annual rate of 20%.

(d) *Mining properties*

The Company carries its mining claims at cost. The Company defers the cost of its exploration expenditure and carries it as an asset until the results of the projects are known. If a project is successful the related exploration expenditures are amortized over a period of years, pro rata to anticipated income. If the project is unsuccessful, the exploration expenditure and mining claims are written off.

(e) *Oil and gas interests*

The Company defers the cost of its oil and gas interests and carries them as an asset until the results of the projects are known. If a project is successful the related expenditure is amortized over a period of years, pro rata to anticipated income. If the project is unsuccessful the expenditure is written off.

(f) *Income taxes*

The Company uses the tax allocation method of accounting for taxes on income. Under this method, timing differences between reported income and taxable income result in deferred income taxes. Deferred income taxes arise mainly from the claiming of a reserve against unpaid amounts arising from the sale of its mining property and the claiming of exploration expenses in excess of amounts written off oil and gas interests.

(g) *Foreign currency translation*

Short-term deposits, marketable securities, long-term assets and long-term liabilities are translated at the approximate exchange rates at the time of acquisition. Other current assets and current liabilities are translated into Canadian dollars at the approximate exchange rate at December 31, 1978.

Revenues and expenses have been translated at rates prevailing during the year.

2. Note receivable

The note receivable bearing interest at 10% per annum matured March 28, 1977 and interest has been paid to that date. No interest has been accrued since March 28, 1977. The principal amount is secured by a first mortgage charge against certain mining properties and equipment of the mortgagor.

3. Bank Indebtedness

The bank indebtedness is secured by pledge of certain marketable securities.

4. Share capital

The share capital of the Company consists of:

Authorized

5,500,000 shares of no par value

Issued

| | | 1979 | |
|----------------------------------|------------------|--------------------|--------------|
| | Shares | Consideration | |
| Balance, beginning of year | 3,556,196 | \$2,144,035 | |
| Purchased by the Company | | | |
| Balance, January 1 | 530,000 | 337,243 | |
| Purchased during year | | | |
| July 9 | 73,100 | 96,615 | \$1.32 |
| October 11 | 10,000 | 15,733 | 1.57 |
| October 15 | 4,300 | 6,979 | 1.62 |
| October 22 | 2,800 | 4,586 | 1.64 |
| October 24 | 7,000 | 10,798 | 1.54 |
| October 29 | 13,200 | 19,661 | 1.49 |
| December 13 | 3,000 | 4,480 | 1.49 |
| December 19 | 5,000 | 7,718 | 1.54 |
| | <u>118,400</u> | <u>166,570</u> | |
| | <u>648,400</u> | <u>503,813</u> | |
| Balance, end of year | <u>2,907,796</u> | <u>\$1,640,222</u> | |

5. Statutory information

The aggregate direct remuneration paid to directors and senior officers (as defined in the Business Corporations Act, Ontario), was \$48,904 (\$41,398 in 1978).

6. Values

The costs of mining claims, deferred exploration expenditures and oil and gas interests do not necessarily reflect present or future values.

COMPARATIVE FINANCIAL SUMMARY

| | December 31 | |
|--|--------------|--------------|
| | 1979 | 1978 |
| Earnings before extraordinary item | \$ 683,758 | \$ 12,197 |
| Net earnings (loss) | \$ 683,758 | \$ 17,047 |
| Earnings before extraordinary item per share | — | — |
| Net earnings (loss) per share | \$.250 | \$.006 |
| Dividend paid | \$ — | \$ 90,786 |
| Current assets | \$ 2,474,585 | \$ 2,261,638 |
| Current liabilities | \$ 89,798 | \$ 140,712 |
| Working capital | \$ 2,384,787 | \$ 2,120,926 |
| Shares issued | — | — |

